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SUBJECT: HIZBALLAH AND HARIRI STRIKE A DEAL

¶1. CONFIDENTIAL - ENTIRE TEXT.

¶2. SUMMARY AND COMMENT. PM HARIRI, SPEAKER BIRRI, AND SHI'A SPIRITUAL LEADER SHAMS AD-DIN MET JULY 11 AND RESOLVED DIFFERENCES OVER THE DISTRIBUTION OF TWO SHI'A-RESERVED SEATS ON THE BOARD OF THE SOUTHERN SUBURBS REDEVELOPMENT SCHEME, ELYSSAR. A HIZBALLAH AND BIRRI MAN WILL TAKE THE TWO SEATS, AND FADLALLAH AND SHAMS AD-DIN EACH WILL WITHDRAW HIS CANDIDATE. THIS DECISION -- STILL TO BE RATIFIED BY THE CABINET ON JULY 13 -- COMPLETES THE YEARS-LONG TRANSFORMATION OF HIZBALLAH'S ATTITUDE TOWARD HARIRI'S SWEEPING DEVELOPMENT PLANS IN THE SUBURBS FROM OPEN HOSTILITY TO ACCOMMODATION. WHILE THE NATURE OF THIS ODD AND LIMITED ALLIANCE OF HARIRI AND HIZBALLAH WILL TAKE TIME TO CLARIFY, HIZBALLAH'S DECISION TO JOIN THE BOARD SUGGESTS A REALIZATION THAT IN FUTURE IT CAN WORK WITH, NOT AGAINST THE STATE TO RETAIN ITS GAINS IN THE SOUTHERN SUBURBS. END SUMMARY AND COMMENT.

¶3. PM RAFIQ HARIRI, PARLIAMENTARY SPEAKER NABIH BERRI, AND SHI'A SPIRITUAL LEADER MUHAMMAD MAHDI SHAMS AD-DIN GATHERED LATE JULY 11. THEY TOLD THE PRESS THAT THE TALKS CENTERED ON THE SITUATION IN THE SOUTH. HOWEVER, ACCORDING TO MUHAMMAD SAMMAK, A KEY AIDE TO HARIRI AND CONFIDANT OF SHAMS AD-DIN, THE REAL TOPIC WAS A DISPUTE OVER ELYSSAR, THE CORPORATION BEING FORMED TO DEVELOP PARTS OF THE SOUTHERN SUBURBS.

¶4. THE DISPUTE INVOLVED THE NOMINATION OF FOUR CANDIDATES FOR TWO RESERVED SHI'A SEATS ON THE BOARD OF DIRECTORS. BERRI, SHAMS AD-DIN, HIZBALLAH SPIRITUAL GUIDE MUHAMMAD HUSAYN FADLALLAH, AND HIZBALLAH EACH PROPOSED A NAME. AFTER LENGTHY GRIDLOCK, FADLALLAH AND HIZBALLAH AGREED THIS WEEK TO PROPOSE A SINGLE CANDIDATE (THAT THEY TOOK SO LONG TO AGREE REFLECTS THE DIVISION BETWEEN FADLALLAH AND THE LEADERSHIP OF THE PARTY). ON THE LLTH, SHAMS AD-DIN AGREED TO WITHDRAW HIS PREFERRED CANDIDATE IN FAVOR OF BERRI'S.

¶5. THERE WAS LITTLE APPARENT CONTROVERSY OVER THE OTHER SEATS, WHICH ARE RESERVED FOR TWO SUNNIS, ONE MARONITE, AND ONE GREEK CATHOLIC. THE CABINET IS EXPECTED TO APPROVE THE RESULTS OF HARIRI'S BACK-ROOM NEGOTIATIONS ON JULY 13.

¶6. THESE DEVELOPMENTS REFLECT A MARKED TRANSFORMATION IN THE ATTITUDES OF HARIRI AND HIZBALLAH TO EACH OTHER, AND IN HIZBALLAH'S VIEW OF THE FUTURE. WHEN IN THE WINTER OF 1992 HARIRI FIRST UNVEILED THE ELYSSAR CONCEPT -- MODELED ON THE EQUALLY CONTROVERSIAL SOLIDERE COMPANY SET UP TO REDEVELOP DOWNTOWN BEIRUT -- HIZBALLAH RAISED STRIDENT OBJECTIONS IN THE STREETS, MOSQUES, AND PARLIAMENT.

¶7. THE PARTY WHIPPED UP A FRENZY BY REMINDING ITS AUDIENCE OF AMIN GEMAYEL'S ATTEMPTS IN THE 80'S TO BULLDOZE THE SOUTHERN SUBURBS AND DISPLACE ITS CITIZENRY UNDER THE GUISE OF REDEVELOPMENT. HIZBALLAH PREYED ON THIS POPULAR FEAR AMONG THE SHI'A IN AN OBVIOUS PLOY TO KEEP THE STATE OUT OF THE SUBURBS, SO HIZBALLAH COULD REMAIN THE SOLE PROVIDER OF SERVICE AND SECURITY.

¶18. HARIRI, FOR HIS PART, WAS JUST AS DETERMINED TO CHALLENGE HIZBALLAH THROUGH HIS MASSIVE REAL ESTATE DEVELOPMENT SCHEMES, WHICH INTEND TO HARNESS PRIVATE CAPITAL TO THE DAUNTING TASK OF REBUILDING GREATER BEIRUT. PARALYSIS RESULTED FROM THIS STANDOFF.

¶19. IN THE SUMMER OF 1995, HOWEVER, CHANGED CIRCUMSTANCES BORE FRUIT. IN NEGOTIATIONS WITH HIZBALLAH, HARIRI AGREED THAT THE THOUSANDS OF SQUATTERS NOW SETTLED IN THE PROPOSED DEVELOPMENT ZONE -- HIZBALLAH SUPPORTERS, FOR THE MOST PART -- WOULD BE PERMITTED TO STAY PUT, AND THAT ELYSSAR WOULD REPLACE THEIR RAMSHACKLE HOUSING WITH NEW APARTMENTS IN KEEPING WITH THE RESORT-TOWN LOOK ENVISIONED BY ALYSSAR FOR THE ZONE. THIS REMOVED THE PARTY'S RALLYING CRY AGAINST THE SCHEME.

¶10. WIDER POLITICAL CALCULATIONS, HOWEVER, PROBABLY ACCOUNT FOR THE PARTY'S WILLINGNESS TO JOIN TOGETHER WITH HARIRI IN DEVELOPING ONE OF ITS STRONGHOLDS. THE DECISION IS IN KEEPING WITH A PRAGMATIC CURRENT WITHIN THE PARTY WHICH WANTS TO READY HIZBALLAH FOR THE TRANSFORMATION FROM A MILITIA WHICH CHALLENGES THE STATE TO A SERVICE-ORIENTED PARTY WITH A PLACE INSIDE LEGITIMATE POLITICS. IN SIGNING UP WITH ELYSSAR, HIZBALLAH MAY ALSO HAVE RECOGNIZED THE VALUE OF ASSOCIATION WITH THE NEXT LARGE SOURCE OF INVESTMENT IN THE SUBURBS, ON THE ASSUMPTION THAT THE IRANIAN CASH FLOW WHICH SUPPORTS HIZBALLAH'S SERVICE ACTIVITIES IN THE SUBURBS MAY SOON DIMINISH. HARIRI GAINS THE SUPPORT OF THE MOST VOCAL ELEMENT IN THE SUBURBS, AND THUS PEACE FOR HIS LUCRATIVE PLAN.

¶11. THIS MUTUAL COZING UP BY HARIRI AND HIZBALLAH COMES CHIEFLY AT THE EXPENSE OF SHI'A SPIRITUAL LEADER SHAMS AD-DIN. WHILE SHAMS AD-DIN -- THE SUCCESSOR OF IMAM MUSA SADR AS HEAD OF THE HIGHER ISLAMIC SHI'A COUNCIL (HISC) -- WOULD BE THE STATE'S NATURAL ALLY IN SHI'A AFFAIRS, HIS SIMULTANEOUS FEUDS WITH BERRI AND HIZBALLAH PUT HIM AT A DISADVANTAGE. HE ALSO LACKS HIZBALLAH'S MUSCLE IN THE SUBURBS, SO DOES NOT NEED TO BE ACCOMMODATED. IN THE LONG RUN, HOWEVER, THE SIDELINING OF SHAMS AD-DIN CAN ONLY ENCOURAGE A FURTHER RADICALIZATION OF SHI'A POLITICS, DOMINATED BY THE MILITIA-TYPE NETWORKS OF BERRI AND HIZBALLAH.

SCHLICHER